

Banking

Seizing Opportunity Amid Uncertainty

Highlights

- The sector continues to offer attractive dividend yields in excess of 5%, with further capital management upside remaining intact.
- Even with a severe case scenario of a 50bp OPR cut, we estimate sector earnings would decline by only ~6%, with dividend yields still holding at an attractive ~5.2%,
- Maintain OVERWEIGHT. Amid the ongoing Middle East geopolitical uncertainties, we adopt a barbell strategy, favouring Public Bank and Hong Leong Bank for their defensive profiles and capital management upside, while CIMB offers attractive value with one of the sector's highest dividend yields at ~6.5%

Analysis

- **Dragged down by broad market sell-off.** Amid broader market weakness driven by concerns over potential economic spillovers from the escalating Middle East crisis, the KLFInance Index has also come under pressure. The sector has retraced a substantial portion of its ytd gains, easing from a peak of +9% to approximately +3% currently. Should geopolitical tensions prove more prolonged, the risk of additional near-term profit-taking could remain, particularly as banks remain among the few sectors that have outperformed the broader market despite the recent sell-down.
- **Seizing opportunity amid uncertainty.** While near-term sentiment remains fragile, we see the recent share price weakness as an opportunity to build positions in a highly liquid and relatively resilient sector. The sector continues to offer attractive dividend yields in excess of 5%, with further capital management upside remaining intact. In this report, we outline the key factors underpinning our constructive stance.
- **Interest rate cut fears priced in.** Concerns have surfaced that higher oil prices could weigh on growth, potentially prompting Bank Negara Malaysia to cut the overnight policy rate (OPR) to cushion the effects of cost-push inflation. However, our in-house economics team believes a rate cut would likely only occur under a severe scenario where the conflict persists for up to six months, potentially resulting in a cumulative 50bp reduction in the OPR to 2.25%. Even under this scenario, the impact on bank earnings remains manageable. We estimate sector earnings would decline by only ~6%, with dividend yields still holding at an attractive ~5.2%, further supported by continued capital management headroom — a key driver of the sector's recent outperformance.

OVERWEIGHT
(Maintained)

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Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Public Bank	PBK MK	BUY	4.80	5.55
CIMB Bank	CIMB MK	BUY	7.80	9.30
Hong Leong Bank	HLBK MK	BUY	22.44	25.15
RHB BANK	RHB MK	BUY	8.25	9.10

Source: Bloomberg, UOB Kay Hian

Banks' 4Q25 Results Core Net Profit

Company	4Q25 (RMm)	Yoy % chg	qoq % chg	Results
Affin	128	(5.5)	(12.0)	Below
Alliance	128	(31.6)	(38.2)	In-line
AMMB	530	8.9	(0.9)	In-line
CIMB	1,919	6.6	(7.6)	In-line
HLBK	1,169	1.8	7.1	In-line
MBB	2,676	5.7	2.1	In-line
PBK	1,876	4.3	1.8	In-line
RHBC	906	8.5	0.2	Above

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 16 Mar 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	2025A (x)	PE 2026E (x)	2027E (x)	Yield 2026E (%)	ROE 2026E (%)	Market Cap. (US\$m)	Price/NAV ps (x)
Public Bank	PBK MK	BUY	4.80	5.55	15.6	Dec-24	12.9	12.0	11.3	5.4	12.6	23,708	1.5
CIMB Group	CIMB MK	BUY	7.80	9.30	19.2	Dec-24	10.7	10.1	9.4	6.5	11.6	21,444	1.2
HL Bank	HLBK MK	BUY	22.44	25.15	12.1	Jun-25	10.9	9.9	9.0	5.1	11.4	12,378	1.1
RHB Bank	RHBBANK MK	BUY	8.25	9.10	10.3	Dec-24	10.7	10.2	9.7	5.9	10.1	9,157	1.0
HLFG	HLFG MK	BUY	20.58	22.67	10.2	Jun-25	7.8	7.6	7.2	3.5	9.7	5,997	0.7
AMMB	AMM MK	BUY	6.50	6.55	0.8	Mar-25	10.8	10.6	10.0	5.2	9.4	5,469	1.0
Maybank	MAY MK	HOLD	11.48	12.30	7.1	Dec-24	12.3	11.8	11.4	6.1	11.2	35,290	1.3
Alliance Bank	ABMB MK	HOLD	4.95	5.10	3.0	Mar-25	11.4	10.7	10.1	4.7	9.9	2,179	1.1
Bank Islam	BIMB MK	HOLD	2.44	2.45	0.4	Dec-24	8.9	8.9	9.8	5.6	7.1	1,407	0.6
Affin Bank	ABANK MK	HOLD	2.56	2.60	1.6	Dec-24	11.5	10.6	9.6	3.8	4.8	1,651	0.5

Source: UOB Kay Hian

Analysis

- Macro flexibility to withstand the shocks.** Despite becoming a net oil importer since 2022, Malaysia remains relatively better positioned than many ASEAN peers. This is reflected by its sizeable LNG export capacity and continued crude palm oil (CPO) trade surplus, both of which help cushion the impact of higher global energy prices.
- Manageable fiscal impact reduces need for aggressive OPR cuts.** Our in-house economics team estimates that even under a severe stress scenario - with crude oil averaging US\$150/bbl for 12 months - Malaysia's net fiscal position would deteriorate by only RM2.7b in 2026, implying only a marginal increase to the government's 3.5% deficit target. For context, the government maintained RON95 subsidised petrol price at RM2.05 in 2022 despite oil price spikes (averaging US\$120 for four months) following the Russia-Ukraine war, while tolerating a significantly wider 5.6% fiscal deficit. More importantly, the rollout of targeted subsidy reforms in recent years has helped to lower the government's fiscal deficit since 2022, allowing the government to potentially navigate and even higher short-term oil price spikes than 2022, in our view. As such, we believe the government will prioritise anchoring inflation to cushion growth, reducing the likelihood of aggressive OPR cuts by Bank Negara Malaysia. Consequently, our in-house base case assumes the OPR will remain unchanged at 2.75%, even if the current Middle East crisis were to persist for up to four months.
- Navigating asset quality risks.** Given the government's focus on insulating consumers through targeted subsidies, we believe asset quality risks from higher energy prices are more likely to emerge within the business segment rather than household loans. In this regard, Public Bank and Hong Leong Bank appear better positioned, evidenced by stable business GIL trends in 3Q25 despite pockets of SME weakness within the sector. CIMB also stands out given its relatively lower SME exposure. Sector-wide risks should remain manageable. During the 2022 oil price spike following the Russia-Ukraine war, the sector's GIL ratio rose by only 13bp to 1.89% over eight months, with the earnings impact largely absorbed by existing provision buffers.
- Dividend runway intact.** Based on current guidance, sector payout ratios average ~58%, with scope to gradually rise toward 60-65% over time. This is supported by strengthening capital positions following the transition to fully loaded Basel III requirements. Internal risk based framework (IRB) banks such as CIMB and Maybank are guiding for CET1 uplift from lower credit risk weighted assets (RWA), while standardised banks including Public Bank and Hong Leong Bank expect 50-100bp CET1 accretion in 2026 alone. As a result, sector CET1 ratios should remain comfortably above 14%, vs estimated optimal levels of ~13.5%. For context, Maybank, with a CET1 ratio broadly in line with the sector average, has sustained payout ratios above 70%, highlighting potential headroom for sector payouts to trend toward ~65% over time. Assuming payout ratios rise to 65%, sector yields could average at 5.8%, representing an attractive 230bp spread over 10-year MGS yields (vs pre-COVID-19 spreads of ~50bp).

Valuation/Recommendation

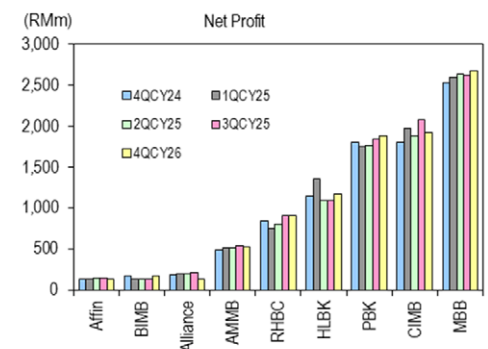
- Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by: a) potential dividend upside, supporting attractive yields of ~5.5%; b) a relatively defensive earnings profile compared with export sectors exposed to tariff risks, c) potential inflows from emerging market MSCI rebalancing, and d) strong provision buffers across the sector. The sector's **1.0x P/B** remains undemanding relative to its **~10% ROE**. By comparison, Singapore banks trade at a significantly higher **~1.65x P/B**, despite delivering only modestly stronger **~13% ROEs**.

Banks' Share Price Performance

Company	Price (RM)	yoy % chg	Ytd % chg
Maybank	11.48	11.2	9.5
Affin Bank	2.56	(0.3)	8.9
HLFG	20.58	19.0	8.0
RHB Bank	8.25	20.4	7.0
Bank Islam	2.44	0.4	6.6
Public Bank	4.80	7.1	5.7
HL Bank	22.44	10.5	1.4
AMMB	6.50	16.1	0.0
Alliance Bank	4.95	0.8	(2.0)
CIMB Group	7.80	11.3	(5.5)

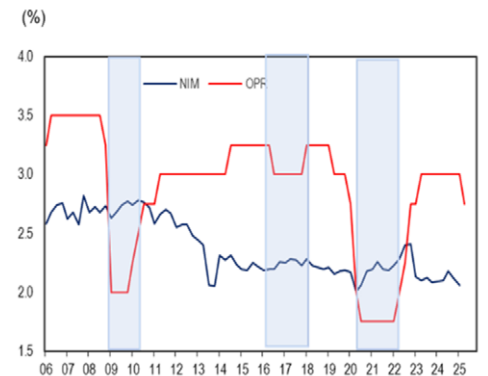
Source: Bloomberg, UOB Kay Hian

Banks Net Profit Trend



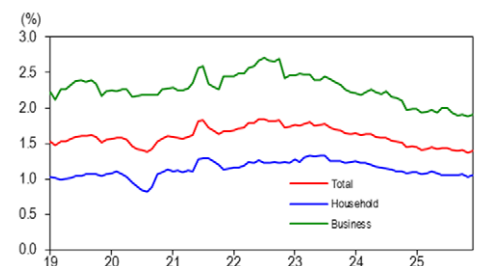
Source: UOB Kay Hian, Respective Companies

Sector NIM Vs OPR



Source: BNM, Respective Companies

Sector GIL Ratio Trend



Source: BNM

- **Stock picks.** Amid the ongoing geopolitical uncertainties in the Middle East, we adopt a barbell investment approach. We favour Public Bank and Hong Leong Bank for their defensive earnings profiles and near-term capital management upside following the adoption of Basel III reforms in Jun 26. At the other end, we like CIMB as a high-beta and liquid laggard that is likely to recover the quickest once geopolitical tensions ease. Valuations have also turned compelling, with the stock offering a ~6.5% dividend yield, the highest among large-cap peers and above the sector average of ~5.5%.

Sector Catalyst/Risk

- Catalysts: a) Stronger-than-expected dividend payouts, b) Stronger-than-expected NIM recovery.
- Risk: Higher-than-expected asset quality deterioration from sustained spike in oil prices on business.

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